

Department of Economic Security
Long Term Care

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| DESCRIPTION | FY 2005 ACTUAL | FY 2006 ESTIMATE | FY 2007 JLBC |
|---------------------------------------|--------------------|---------------------|--------------------|
| OPERATING BUDGET | | | |
| <i>Full Time Equivalent Positions</i> | 1,445.4 | 1,469.4 | 1,622.0 |
| Personal Services | 9,893,100 | 10,255,800 | 10,255,800 |
| Employee Related Expenditures | 3,078,400 | 3,267,800 | 3,267,800 |
| Professional and Outside Services | 960,300 | 1,174,600 | 1,174,600 |
| Travel - In State | 267,400 | 280,300 | 280,300 |
| Other Operating Expenditures | 13,203,100 | 13,739,000 | 14,371,700 |
| Equipment | 467,600 | 0 | 0 |
| OPERATING SUBTOTAL | 27,869,900 | 28,717,500 | 29,350,200 |
| SPECIAL LINE ITEMS | | | |
| Case Management | 25,451,300 | 31,556,900 | 32,817,000 |
| Home and Community Based Services | 382,929,800 | 461,082,600 | 500,027,100 |
| Institutional Services | 12,483,200 | 16,519,700 | 18,314,700 |
| Medical Services | 78,824,900 | 87,753,400 | 90,258,600 |
| Arizona Training Program at Coolidge | 14,836,600 | 12,129,100 | 17,318,200 |
| Medicare Clawback Payments | 0 | 0 | 2,360,900 |
| PROGRAM TOTAL | 542,395,700 | 637,759,200 | 690,446,700 |

FUND SOURCES

| | | | |
|--|--------------------|--------------------|--------------------|
| General Fund | 190,763,700 | 209,771,900 | 232,051,700 |
| SUBTOTAL - Appropriated Funds | 190,763,700 | 209,771,900 | 232,051,700 |
| <u>Expenditure Authority Funds</u> | | | |
| Long Term Care System Fund (Federal Match) | 351,632,000 | 427,987,300 | 458,395,000 |
| SUBTOTAL - Expenditure Authority Funds | 351,632,000 | 427,987,300 | 458,395,000 |
| SUBTOTAL - Appropriated/Expenditure Authority Funds | 542,395,700 | 637,759,200 | 690,446,700 |
| TOTAL - ALL SOURCES | 542,395,700 | 637,759,200 | 690,446,700 |

CHANGE IN FUNDING SUMMARY

| | FY 2006 to FY 2007 JLBC | |
|--|-------------------------|----------|
| | \$ Change | % Change |
| General Fund | 22,279,800 | 10.6% |
| Expenditure Authority Funds | 30,407,700 | 7.1% |
| Total Appropriated/Expenditure Authority Funds | 52,687,500 | 8.3% |
| Total - All Sources | 52,687,500 | 8.3% |

COST CENTER DESCRIPTION — The Long Term Care (LTC) Program provides services to individuals with mental retardation, cerebral palsy, autism, and epilepsy, who are eligible for the federal Title XIX Program. Title XIX is an entitlement program in which any individual meeting the financial and functional requirements must receive assistance. To qualify for federal funding, an individual must have an income below 300% of the Supplemental Security Income (SSI) eligibility limit and have certain functional needs. Clients not eligible for the federal program can receive services funded through the 100% state-funded Developmental Disabilities (DD) Program. Besides contracting for services, the program: a) operates the Arizona Training Program at Coolidge (ATP-C), and smaller state-operated group homes, and b) provides case management services to recipients.

PERFORMANCE MEASURES — See Developmental Disabilities cost center.

RECOMMENDED CHANGES FROM FY 2006

Overview

The LTC cost center is funded from 2 sources: the General Fund (GF) and federal Title XIX capitation revenues received from the Arizona Health Care Cost Containment System (AHCCCS). The LTC appropriation includes the appropriation of GF monies and federal expenditure authority. The state is required to contribute about one-third of the cost of the Long Term Care program.

As the AHCCCS-authorized provider of DD services, the Department of Economic Security (DES) receives federal monies through prepaid monthly capitation payments based on rates for types of clients. The recommended amount makes the following assumptions:

- Caseload growth: Growth is estimated at 6.5% from June 2006 to June 2007. This 6.5% growth rate represents a 30% reliance on the FY 2005 monthly caseload growth rate of 7.6% and a 70% reliance on the first 4 months of FY 2006 monthly caseload growth rate of 6%. The caseload growth will result in an average monthly caseload of 18,683 clients, including both regular and ventilator dependent clients.
- Capitation rate: JLBC assumes a 3% capitation rate growth in FY 2007. The 3% growth assumption is consistent with past trends. In January 2005, the capitation rates were increased by 3.2% for inflation. The JLBC recommendation assumes 1 modification to these rates: it holds the Administrative component flat at the FY 2006 rate.
- Federal Matching Assistance Percentage (FMAP): This rate will decline from 66.98% in Federal Fiscal Year (FFY) 2006 to 66.47% in FFY 2007, which means the state will have to contribute slightly more in state monies to generate \$1 in total funds.

Table 1 summarizes member years, capitation rates, and the state and federal share of funding for the LTC program. Table 2 summarizes the average monthly caseload estimates for the Special Line Items. Please note that all clients are eligible for Medical Services and Case Management as necessary, but not all clients access other services in any particular month.

Table 2

| <u>Special Line Item</u> | <u>Clients</u> |
|--|----------------|
| Home and Community Based Services | 15,716 |
| Institutional Services | 398 |
| Arizona Training Program at Coolidge | 145 |
| Subtotal | 16,259 |
| Case Management /Medical Services only | 2,324 |
| Total | 18,583 |

As of September 2005, the Division of Developmental Disabilities, both the LTC and the state-only portion, together serve 25,074 clients. These clients have the following primary disabilities:

Table 3

Primary Disability of Clients Served

| <u>Disability</u> | <u>Number</u> | <u>Percentage</u> |
|--------------------|---------------|-------------------|
| Mental Retardation | 10,755 | 43% |
| At Risk | 8,343 | 33% |
| Cerebral Palsy | 2,625 | 10% |
| Autism | 1,947 | 8% |
| Epilepsy | 1,404 | 6% |

Operating Budget

The JLBC recommends \$29,350,200 for the operating budget in FY 2007. This amount consists of:

| | FY 2007 |
|----------------------------|----------------|
| General Fund | \$ 9,803,700 |
| Long Term Care System Fund | 19,546,500 |

These amounts would fund the following adjustments:

| Premium Tax Growth | GF | 366,500 |
|---------------------------|-----------|----------------|
| | EA | 266,200 |

The JLBC recommends an increase of \$632,700 in FY 2007 for premium tax growth. This amount consists of:

| | |
|----------------------------|---------|
| General Fund | 366,500 |
| Long Term Care System Fund | 266,200 |

Table 1

| <u>Capitation Category</u> | <u>Member Years</u> | <u>Monthly Capitation Rate</u> | <u>Title XIX Share</u> | <u>State GF Match</u> | <u>Total</u> |
|----------------------------|---------------------|--------------------------------|------------------------|-----------------------|----------------------|
| FY 2007 | | | | | |
| Enrolled | 18,583 | \$3,078.13 | \$457,112,900 | \$229,300,300 | \$686,413,200 |
| Ventilator Dependent | 100 | \$12,308.02 | 9,836,200 | 4,933,400 | 14,769,600 |
| Total | 18,683 | | 466,949,100 | 234,233,700 | 701,182,800 |
| Administration | | | (6,969,400) | (3,748,000) | (10,717,400) |
| FFS/Reinsurance | | | 1,288,700 | 646,300 | 1,935,000 |
| Cost Sharing | | | (2,873,400) | (1,441,200) | (4,314,600) |
| Clawback Payments | | | 0 | 2,360,900 | 2,360,900 |
| FY 2007 LTC Total | | | \$458,395,000 | \$232,051,700 | \$690,446,700 |

This increase is based on the total amount of expected premium tax payments. The premium tax includes amounts associated with the pass-through of behavioral health monies to DHS. The tax is assessed on all net insurance premiums in the state. The state contracts with various health service organizations to carry out needed services. Health care service organizations collect insurance premiums and are therefore subject to the tax.

Special Line Items

Case Management

The JLBC recommends \$32,817,000 and 719.5 FTE Positions for Case Management in FY 2007. This amount consists of:

| | |
|----------------------------|------------|
| General Fund | 10,961,700 |
| Long Term Care System Fund | 21,855,300 |

These amounts would fund the following adjustments:

| | | |
|------------------------|-----------|------------------|
| Caseload Growth | GF | 928,200 |
| | EA | 1,052,100 |

The JLBC recommends an increase of \$1,980,300 and 34 FTE Positions in FY 2007 for 24 case managers, 5 supervisors and 5 case manager assistants related to caseload growth. These amounts consist of:

| | |
|----------------------------|-----------|
| General Fund | 928,200 |
| Long Term Care System Fund | 1,052,100 |

The recommended amounts include \$114,700 for rent and \$357,000 for one-time equipment. Case managers were added at a ratio of 35 cases for every new case manager.

In addition to providing case management services to an estimated 16,259 clients receiving direct services, this line item also provides case management services only to another 2,324 clients.

| | | |
|-------------------------------------|-----------|------------------|
| Eliminate One-Time Equipment | GF | (153,900) |
| | EA | (313,800) |

The JLBC recommends a decrease of \$(467,700) in FY 2007 for elimination of one-time FY 2006 equipment. This amount consists of:

| | |
|----------------------------|-----------|
| General Fund | (153,900) |
| Long Term Care System Fund | (313,800) |

| | | |
|---------------------------|-----------|------------------|
| Rent Funding Shift | GF | (252,500) |
|---------------------------|-----------|------------------|

The JLBC recommends a decrease of \$(252,500) from the General Fund in FY 2007 to shift rent funding from this division to the Administration Division. Rent payments for the department are paid out of the Administration Division. (See *Rent Funding Shift discussion in the Administration Division for further detail.*)

Home and Community Based Services

The JLBC recommends \$500,027,100 and 99.2 FTE Positions for Home and Community Based Services in FY 2007. These amounts consist of:

| | |
|----------------------------|-------------|
| General Fund | 166,874,500 |
| Long Term Care System Fund | 333,152,600 |

These amounts would fund the following adjustments:

| | | |
|------------------------|-----------|-------------------|
| Caseload Growth | GF | 14,591,800 |
| | EA | 24,352,700 |

The JLBC recommends an increase of \$38,944,500 in FY 2007 for Long Term Care caseload growth. This amount consists of:

| | |
|----------------------------|------------|
| General Fund | 14,591,800 |
| Long Term Care System Fund | 24,352,700 |

These amounts are based upon the estimated 6.5% caseload growth and 3% capitation rate growth for FY 2007.

In FY 2006 the administrative component was assumed to be \$203.28 of the overall \$2,932.20 monthly capitation rate; that component generated about \$43.3 million in administrative dollars. Even with keeping the administrative component flat at \$203.28, additional caseload growth generates an additional \$2,032,100 from that component in FY 2007. This amount consists of \$678,800 in General Fund and \$1,353,300 in matching federal monies. The JLBC recommends setting these monies aside for provider rate increases. When combined with the \$830,200 savings in the Coolidge fund transfer, this generates a total of \$2,862,300 available funds for provider rate increases or other purposes. This amount consists of \$1,509,000 in General Fund and \$1,353,300 in matching federal monies. Based on the FY 2006 costs of provider rate increases, these total available funds would raise the provider rates on the published rate schedule by 0.7%. Further provider adjustments may be considered during session. (*Please see the Arizona Training Program at Coolidge section for more information.*)

Monies in this line item fund residential programs, day programs, and support services for clients in a broad range of settings, from those living independently at home to those living in group homes. Monies also fund staff in state-operated group homes, excluding the Arizona Training Program at Coolidge.

Of the \$500,027,100 in this line item, \$495,956,400 funds Home and Community Based Services to clients enrolled in the LTC program; the other \$4,070,700 funds program staff.

Table 4 indicates how estimated caseloads are expected to be allocated among HCBS settings:

| Table 4 | |
|---------------------------------|-----------------------|
| <u>HCBS Setting</u> | <u>Clients</u> |
| At Home With Family | 11,430 |
| Adult Developmental Foster Home | 615 |
| Group Home | 3,323 |
| Child Developmental Foster Home | 294 |
| Independent Living | 7 |
| State-Operated Group Home | 47 |
| Total | 15,716 |

Institutional Services

The JLBC recommends \$18,314,700 and 77.7 FTE Positions for Institutional Services in FY 2007. This amount consists of:

| | |
|----------------------------|------------|
| General Fund | 6,117,600 |
| Long Term Care System Fund | 12,197,100 |

These amounts would fund the following adjustments:

| | | |
|------------------------|-----------|------------------|
| Caseload Growth | GF | 696,000 |
| | EA | 1,099,000 |

The JLBC recommends an increase of \$1,795,000 in FY 2007 for Long Term Care caseload growth. This amount consists of:

| | |
|----------------------------|-----------|
| General Fund | 696,000 |
| Long Term Care System Fund | 1,099,000 |

These amounts are based upon the estimated 6.5% caseload growth and 3% capitation rate growth for FY 2007.

Monies in this line item fund residential and day programs to clients with more severe developmental disabilities. These clients reside in Intermediate Care Facilities for the Mentally Retarded (ICF/MRs) or other nursing facilities, both privately- and state-operated, excluding the Arizona Training Program at Coolidge. The budget is estimated to serve 398 clients.

Of the \$18,314,700 in this line item, \$15,118,500 funds Institutional Services to clients enrolled in the LTC program; the other \$3,196,200 funds program staff.

Medical Services

The JLBC recommends \$90,258,600 and 36.7 FTE Positions for Medical Services in FY 2007. This amount consists of:

| | |
|----------------------------|------------|
| General Fund | 30,148,600 |
| Long Term Care System Fund | 60,110,000 |

These amounts would fund the following adjustments:

| | | |
|------------------------|-----------|------------------|
| Caseload Growth | GF | 4,178,000 |
| | EA | 5,063,100 |

The JLBC recommends an increase of \$9,241,100 in FY 2007 for Long Term Care caseload growth. This amount consists of:

| | |
|----------------------------|-----------|
| General Fund | 4,178,000 |
| Long Term Care System Fund | 5,063,100 |

These amounts are based upon the estimated 6.5% caseload growth and 3% capitation rate growth for FY 2007.

| | | |
|----------------------------------|-----------|--------------------|
| Prescription Drug Savings | GF | (2,249,800) |
| | EA | (4,486,100) |

The JLBC recommends a decrease of \$(6,735,900) in FY 2007 for savings from the federal prescription drug program. This amount consists of:

| | |
|----------------------------|-------------|
| General Fund | (2,249,800) |
| Long Term Care System Fund | (4,486,100) |

Effective January 1, 2006, the federal government is paying prescription drug costs for Medicare clients. The state previously had to pay the prescription drug costs for these clients with a state/federal match. *(Please see the Medicare Clawback Payments section for more information.)*

Of the \$90,258,600 in this line item, \$88,217,900 funds Acute Care services to clients enrolled in the LTC program; the other \$2,040,700 funds the staff of the division's Managed Care unit.

Arizona Training Program at Coolidge

The JLBC recommends \$17,318,200 and 417.4 FTE Positions for the Arizona Training Program at Coolidge (ATP-C) in FY 2007. This amount consists of:

| | |
|----------------------------|------------|
| General Fund | 5,784,700 |
| Long Term Care System Fund | 11,533,500 |

These amounts would fund the following adjustments:

| | | |
|-----------------------------------|-----------|------------------|
| Eligibility Shift Transfer | GF | 1,814,600 |
| | EA | 3,374,500 |

The JLBC recommends an increase of \$5,189,100 and 118.6 FTE Positions in FY 2007 for an eligibility shift transfer. These amounts consist of:

| | |
|----------------------------|-----------|
| General Fund | 1,814,600 |
| Long Term Care System Fund | 3,374,500 |

An equivalent amount of total funds are also being recommended for reduction in the DD ATP-C line item; however, more state funds will be used as matching funds to draw down additional Federal Funds. The net result is a General Fund savings of \$830,200, which will be set aside for provider rate issues in the Developmental Disabilities cost center, as shown in Table 5. *(Please see the*

Developmental Disabilities Cost Center narrative for more information on this fund transfer.)

Table 5

ATP-Coolidge Eligibility Shift Transfer

Sources

DD ATP-C

| | |
|----------------------------|------------------|
| General Fund | \$2,644,800 |
| Long Term Care System Fund | <u>2,544,300</u> |

Total – Sources **5,189,100**

Uses

LTC ATP-C

| | |
|-------------------|-----------|
| General Fund | 1,814,600 |
| Federal Title XIX | 3,374,500 |

Provider Rate Adjustment 830,200

Total – Uses **\$6,019,300**

*The uses are \$830,200 higher than the sources because General Fund monies were used to generate \$3,374,500 federally-matched dollars.

Monies in this line item fund an entire range of services for DD clients residing at the ATP-C campus, either in ICF/MRs or state-operated group homes (SOGHs). The recommended amount does not include costs associated with case management, certain occupancy-related costs, other indirect administration, and Stipends and Allowances.

The recommended amount is budgeted to provide a total of 145 member years of service in FY 2007, 117 in ICF/MRs and 28 in SOGHs. The approximate blended cost per DD budgeted client at ATP-C (excluding these other costs) will be \$122,900 in FY 2007. The actual ATP-C population has been below budgeted levels, as shown in Table 6.

Table 6

ATP-C Client Population

| | |
|-----------------|-----|
| FY 2005 | 138 |
| FY 2006 (est.)* | 133 |
| FY 2007 (est.)* | 128 |

*For the last 6 years average annual population decline has been 4.8.

Medicare Clawback Payments

The JLBC recommends \$2,360,900 from the General Fund for a new line item, Medicare Clawback Payments, in FY 2007. This amount would fund the following adjustments:

New Payments **GF** **2,360,900**

The JLBC recommends an increase of \$2,360,900 from the General Fund in FY 2007 for new Clawback Payments.

The budget provides for the creation of a new Special Line Item titled Medicare Clawback Payments that will be used to make payments to Medicare, as required by the Medicare Modernization Act (MMA). As part of the MMA, DES will no longer be required to pay for prescriptions drug costs for members that are also eligible for Medicare. Instead, DES will be required to make “Clawback” payments to Medicare based on 90% of the estimated prescription drug cost of this population in FY 2007. (Please see the AHCCCS Summary narrative for more details on the MMA and Clawback payment.)

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JLBC RECOMMENDED FORMAT — Operating Lump Sum with Special Line Items by Program

JLBC RECOMMENDED FOOTNOTES

Standard Footnotes

The department shall report to the Joint Legislative Budget Committee by March 31 of each year on preliminary actuarial estimates of the capitation rate increases for the following fiscal year. Before implementation of any changes in capitation rates for the Long Term Care program, the Department of Economic Security shall report its expenditure plan to the Joint Legislative Budget Committee for its review. Unless required for compliance with federal law, before the department implements any changes in policy affecting the amount, sufficiency, duration, and scope of health care services, and who may provide services, the department shall prepare a fiscal impact analysis on the potential effects of this change on the following year’s capitation rates. If the fiscal analysis demonstrates that these changes will result in additional state costs of \$500,000 or greater for a given fiscal year, the department shall submit the policy changes to the Joint Legislative Budget Committee for review. The department shall also report quarterly to the Joint Legislative Budget Committee itemizing all policy changes with fiscal impacts of less than \$500,000 in state costs. IF STATUTORY LANGUAGE IS ENACTED TO PROHIBIT THESE POLICY CHANGES, THE PORTION OF THE FOOTNOTE REGARDING JLBC REVIEW OF POLICY CHANGES SHALL NOT APPLY.

All monies in the Long Term Care System Fund unexpended and unencumbered at the end of FY 2007 revert to the state General Fund, subject to approval by the Arizona Health Care Cost Containment System.

Deletion of Prior Year Footnotes

The JLBC recommends deleting the footnote detailing the use of an FY 2006 appropriation for provider rate increases.

JLBC RECOMMENDED STATUTORY CHANGES

The JLBC recommends amending statute to limit annual capitation rate adjustments made by the department to

include only utilization and inflation, unless previously approved by the Legislature. Any programmatic changes

or other policy decisions that might otherwise affect capitation payments would be approved by the full Legislature.

SUMMARY OF FUNDS - SEE AGENCY SUMMARY
